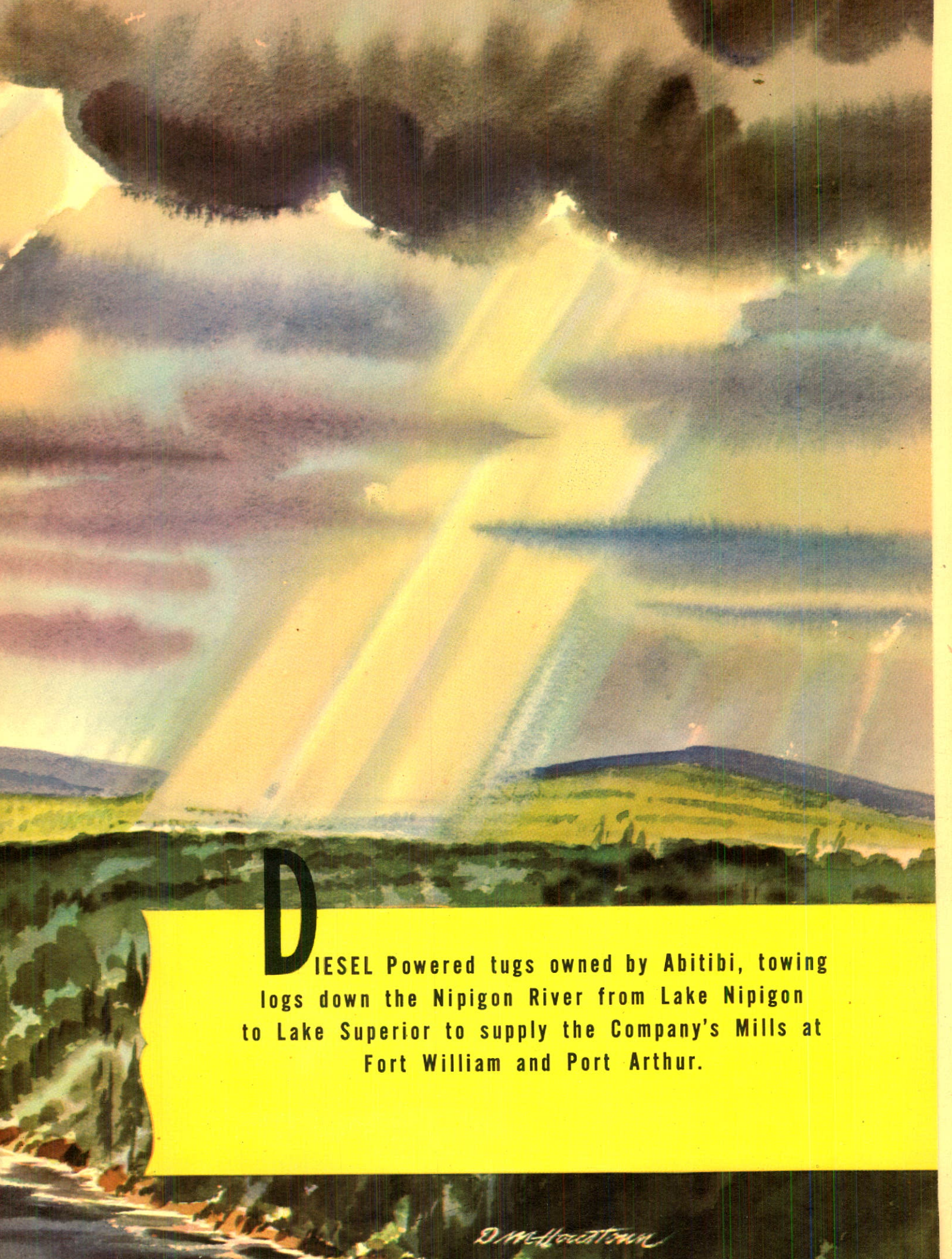




Annual Report

For the period ending
December 31st, 1946





DIESEL Powered tugs owned by Abitibi, towing logs down the Nipigon River from Lake Nipigon to Lake Superior to supply the Company's Mills at Fort William and Port Arthur.

D. McQuinn



Annual Report
of

Abitibi Power & Paper Company, Limited



for the period ending 31st December

1946





BITIBI POWER & PAPER COMPANY, LIMITED

Directors

DOUGLAS W. AMBRIDGE	- - - - -	Manufacturer	- - - - -	19 Wychwood Pk., Toronto, Ont.
WILLIAM H. SMITH	- - - - -	Manufacturer	- - - - -	7 Ridgewood Rd., Toronto, Ont.
EDWARD W. BICKLE	- - - - -	Investment Dealer	- - - - -	18 Clarendon Ave., Toronto, Ont.
HARRY J. CARMICHAEL	- - - - -	Manufacturer	- - - - -	Yates St., St. Catharines, Ont.
GEORGE R. COTTRELLE	- - - - -	Industrialist	- - - - -	241 Warren Rd., Toronto, Ont.
ALLAN GRAYDON, K.C.	- - - - -	Barrister	- - - - -	408 Russell Hill Rd., Toronto, Ont.
JAMES HENRY GUNDY	- - - - -	Investment Dealer	- - - - -	43 Russell Hill Rd., Toronto, Ont.
T. RODGIE MCLAGAN	- - - - -	Manufacturer	- - - - -	44 Sunnyside Ave., Westmount, Que.
ROBERT H. REID	- - - - -	Insurance Executive	- - - - -	837 Talbot St., London, Ont.
JOSEPH P. RIPLEY	- - - - -	Investment Banker	- - - - -	63 Wall St., New York 5, U.S.A.
J. S. D. TORY, K.C.	- - - - -	Barrister	- - - - -	55 Douglas Drive, Toronto, Ont.

Officers

DOUGLAS W. AMBRIDGE	- - -	President and General Manager	- - -	19 Wychwood Pk., Toronto, Ont.
WILLIAM H. SMITH	- - -	Vice-President	- - -	7 Ridgewood Rd., Toronto, Ont.
THOMAS BROADHURST	- - -	Secretary	- - -	90 Ridge Dr., Toronto, Ont.
HOWARD YOUNG	- - -	Treasurer and Assistant Secretary	- - -	520 Briar Hill Ave., Toronto, Ont.

Transfer Agents

MONTREAL TRUST COMPANY, Toronto, Ont.
MONTREAL TRUST COMPANY, Montreal, Que.
CITY BANK FARMERS TRUST COMPANY, New York, N.Y.

Registrars

THE TORONTO GENERAL TRUSTS CORPORATION, Toronto, Ont.
THE EASTERN TRUST COMPANY, Montreal, Que.
THE NATIONAL CITY BANK OF NEW YORK, New York, N.Y.

Auditors

PRICE, WATERHOUSE & CO.	- - - - -	Chartered Accountants	- - - - -	Royal Bank Bldg., Toronto, Ont.
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P

resident's report



To The Shareholders of
Abitibi Power & Paper Company, Limited:

This is the first report on the operations of the Company and its subsidiaries to be published since the receivership ended. It is therefore a document of some historic importance. It marks the beginning of a new era in the history of the Company; it is being published at the opening of what should be a great era in the history of pulp and paper-making in Canada.

The Company is a major unit in the Canadian pulp and paper industry. In 1946, 14.7% of all the newsprint produced in Canada was manufactured in the Company's mills. The well-being of the Company is therefore of major importance to the whole industry and hence to the whole Canadian economy.

It seems fit and proper that at this time a tribute be paid to the Receiver and Manager who for almost 14 years guided the destinies of the Company through the stormiest years the world has ever known. Mr. G. T. Clarkson faithfully conserved the assets of the Company in times of great difficulties and so made possible the building of a new organization upon the foundations of the old.

The resignation of Mr. L. R. Wilson, for many years Vice-President and Managing Director of the Company, who retired as of May 1st last, was accepted with great regret.

E

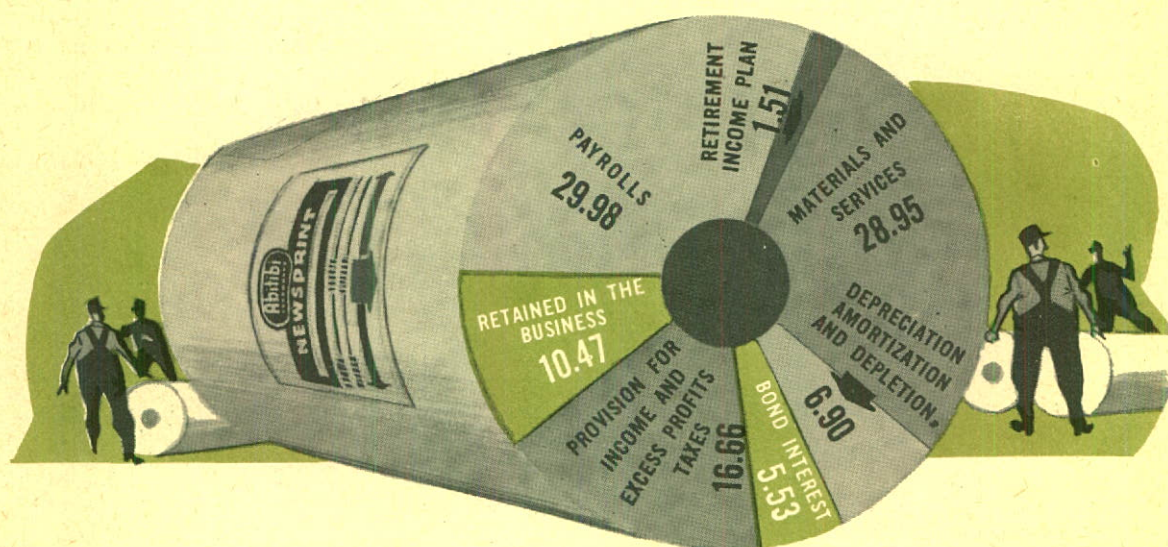
EARNINGS

The consolidated statement of profit and loss has been prepared in a form to show the results of the operations from May 1st, 1946, the date on which the present Board of Directors assumed responsibility for the Company's affairs.

For the year ending December 31st, 1946, profits were \$5,600,205.61, of which \$1,453,652.87 were realized during the first 4 months of the year under receivership. This latter amount was credited to deficit account as at the termination of receivership on April 30th, 1946. The remainder, \$4,146,552.74, was realized from operations conducted under the present Management and has been credited to earned surplus as shown on the Balance Sheet.

The sharp increase in the rate of earnings was due to substantial increases in the prices of newsprint and sulphite pulp and to an increased rate of production at all the Company's mills since May 1st, 1946.

The accompanying chart shows the distribution of the sales dollar received by the Company during the year. It should be noted that out of every dollar paid to the Company by its customers 16.66 cents were provided for Income and Excess Profits Taxes.



BALANCE SHEET . . .

On taking office the Directors considered that, in view of all the circumstances, it was essential that a report be obtained from a competent firm of engineers on the values of the Company's fixed assets (not including timber areas) as at April 30th, 1946. Messrs. Coverdale & Colpitts, Consulting Engineers of New York City, were engaged to undertake this work and the values of the properties, plant and equipment have been restated on the books at the valuations made by them. In the accom-

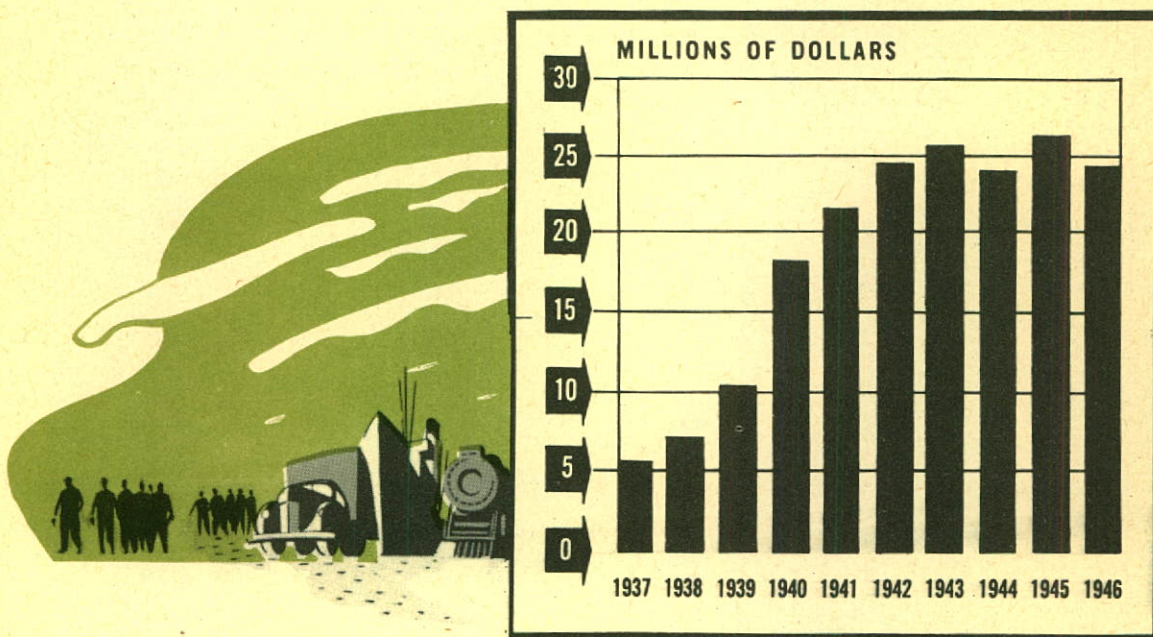
panying financial statements and in the notes and exhibits thereto more detailed reference is made to this restatement of values.

On referring to these statements and the report of the Company's auditors, Messrs. Price, Waterhouse & Co., it will be noted that by resolution of the Directors the consolidated deficit resulting from operations to the end of the receivership period on the 30th April, 1946, amounting to \$12,227,635, was charged to surplus arising from the restatement of the book values of the properties, plant and equipment as at the 30th April, 1946, and the balance of \$8,197,419 of such surplus was applied in writing down the consolidated gross book values of timber concessions, agreements and licences and waterpower rights.

W

ORKING CAPITAL . . .

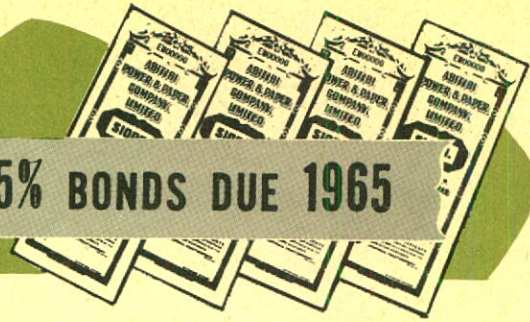
The following chart shows how the working capital of the Company has increased in recent years.



It is evident that the increased activity of business in general as a result of the war contributed in a decisive way towards establishing an adequate working capital position. Beginning from so sound a base it will be possible for the present Management to undertake the reconstruction of the Company in all its phases, human, financial and physical, with every prospect of success.

R

EFUNDING OF FIRST MORTGAGE 5% BONDS DUE 1965



The problem of reducing the funded indebtedness of the Company and of bringing the interest rate down to the current level for sound industrial bonds has occupied the attention of the Directors for many months. By the time this report is distributed the refunding of the Company's bonded indebtedness will have been substantially accomplished.

This operation was made possible by the fact that adequate working capital was available, a part of which was used to pay off approximately \$8,000,000 of the old 5% Bonds.

The redemption of the presently outstanding \$53,093,700 of 5% Bonds, and the issue of \$45,000,000 of 3½% Bonds will result in a saving in annual interest charges of \$1,079,685. When the mills are running at full capacity the interest on the new bond issue will amount to approximately \$2.00 per ton of product—a very moderate first charge on the gross earnings.

T

AXES



The income and excess profits tax problems of the Company, which have been the subject of a great deal of negotiation with the Dominion Government in recent years, have been settled. The Company's standard profits have been fixed and all such taxes owing have been paid up to and including the year 1945.

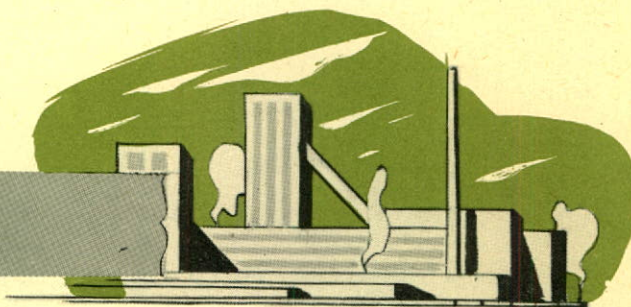
Of the total profits for the year 1946, after providing for depreciation, depletion and bond interest, an amount of \$8,275,000, or about sixty percent., has been set aside as a reserve for income and excess profits taxes.

This very large sum is much more than interest on borrowed capital, provision for depreciation and the pension plan payment taken together.

It is to be hoped that the taxing authorities will find some means for lightening the burden of taxation on the industry so that there may be adequate funds available for development and research programmes and for the carrying out of enlightened reforestation and forest management policies.

Without progressive thinking and resolute action backed by adequate expenditures for the development of the industry there can be no guarantee that it will continue to play its present outstanding part in the economy of the nation.

P ROPERTIES



The principal mills of the Company and its subsidiaries with their capacities and type of product are listed below:

<i>Location</i>	<i>Product</i>	<i>Annual Capacity</i>
IROQUOIS FALLS, ONT.....	Newsprint.....	195,700 tons
	Wrapper.....(a)	12,000 tons
SMOOTH ROCK FALLS, ONT.....	Bleached Sulphite.....	63,000 tons
STURGEON FALLS, ONT.....	Corrugating Board.....(b)	30,000 tons
SAULT STE. MARIE, ONT.....	Newsprint.....	94,800 tons
	Unbleached Sulphite.....	30,000 tons
PORT ARTHUR, ONT.....	Newsprint.....	88,000 tons
FORT WILLIAM, ONT.....	Newsprint.....	60,500 tons
PINE FALLS, MANITOBA.....	Newsprint.....	88,900 tons
BEAUPRÉ, QUEBEC.....	Newsprint.....	95,800 tons
GEORGETOWN, ONT. } MILLE ROCHES, ONT. } PORT ARTHUR, ONT. } THOROLD, ONT. }	(c).....Fine Papers.....	56,000 tons

(a) Largely for inter-company use.

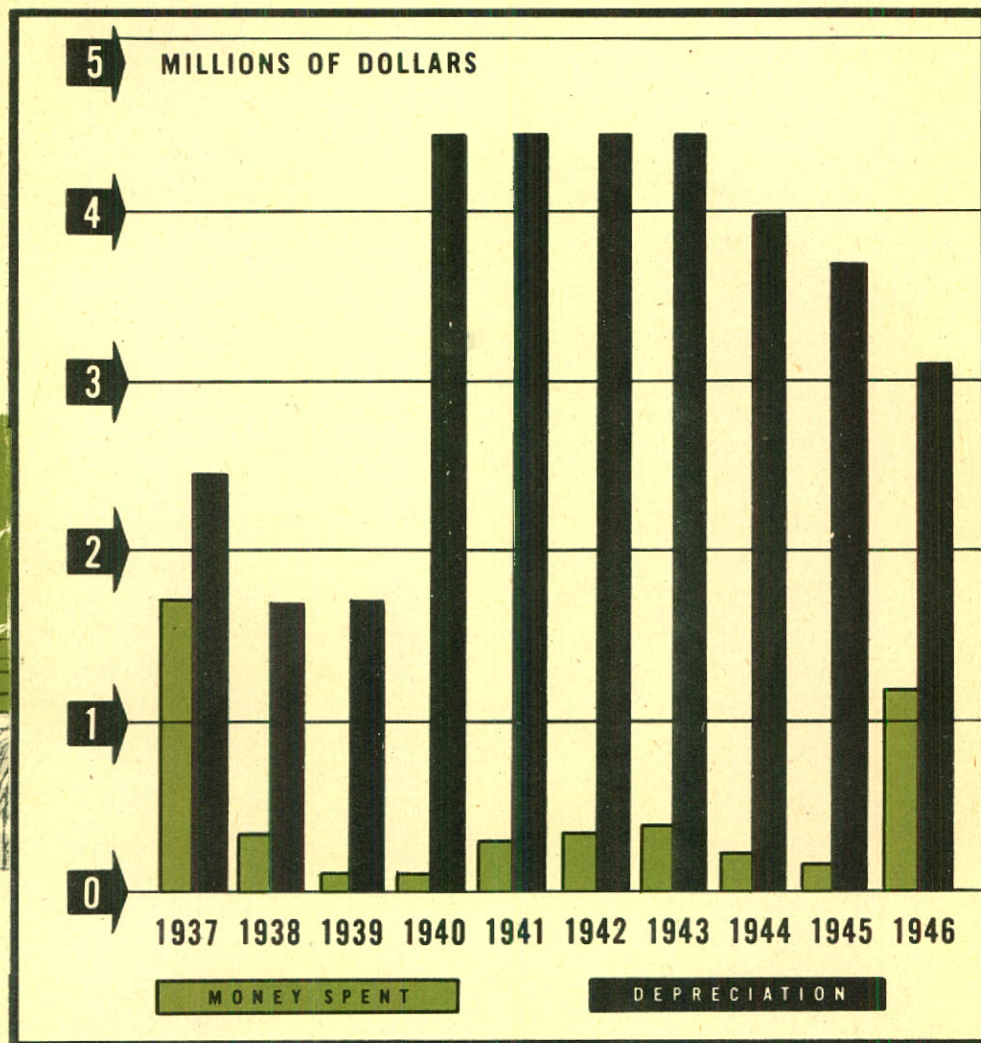
(b) Formerly idle, this mill is now being converted to manufacture Corrugating Board.

(c) Owned by Provincial Paper, Limited.

During approximately 14 years of receivership only minor sums were spent on capital additions to these plants and the Company therefore faces as to all of them the urgent need for modernization.

The following chart shows how the amounts set aside for depreciation compare with the amounts spent on capital additions and improvements to the Company's properties during the past ten years.

COMPARISON BETWEEN DEPRECIATION AND CAPITAL EXPENDITURE



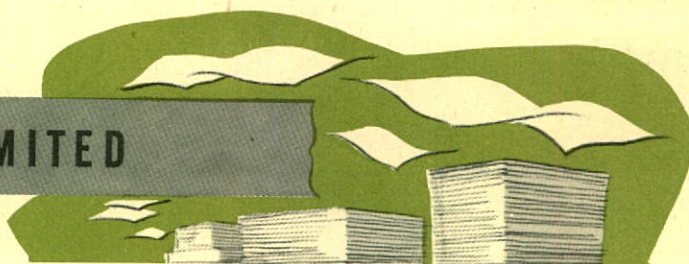
The above will give some idea of the accumulated need for capital expenditures in the next few years.

With this situation before them, the Directors have authorized the first stages of a thorough modernization programme which includes the following projects which are presently under way:-

1. New grinder room at the Port Arthur newsprint mill.
-
2. New caustic extraction stage at the Smooth Rock Falls bleached sulphite mill
-
3. Sturgeon Falls mill conversion to the manufacture of corrugating board.
-
4. Increase in capacity of Iroquois Falls wrapper machine.
-
5. New storey on the Toronto office building.

In addition to the above, plans are in the process of being finally drafted for the speeding up of several of the mills, for the construction of a modern research laboratory and for the construction of much needed hotels, hospitals and office buildings in the Company's townsites.

PROVINCIAL PAPER, LIMITED



All of the common stock of this company is owned by Abitibi Power & Paper Company, Limited.

During the year under review all of the previously outstanding 5½% bonds, amounting to \$2,740,000, and all of the previously outstanding 7% preferred shares, amounting to \$3,500,000, were redeemed. Funds for this purpose were secured partly from the liquid resources of Provincial Paper, Limited, partly from the

proceeds of sale of 250,000 common shares of Provincial Paper, Limited to Abitibi Power & Paper Company, Limited for the sum of \$4,000,000, and partly from the proceeds of sale to the public of a new issue of \$1,000,000 par value 4% Preference Shares of Provincial Paper, Limited.

The resignation, due to ill health, of Mr. S. F. Duncan, for many years President of Provincial Paper, Limited, is here recorded with great regret. Mr. Duncan's resignation made necessary a reorganization of the Provincial Board of Directors. This was carried out and the present Board consists of:—

D. W. AMBRIDGE	- - - - -	W. S. BARBER
T. BROADHURST		
ALLAN GRAYDON, K.C.	- - - - -	A. P. JEWETT
A. G. POUNSFORD		
W. H. SMITH	- - - - -	J. S. D. TORY, K.C.
HOWARD YOUNG		

The Officers of Provincial Paper, Limited are:—

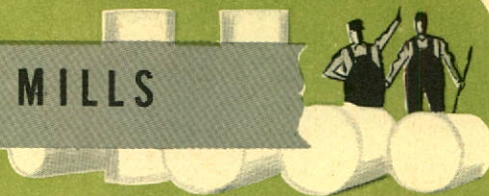
<i>President</i>	- - - - -	D. W. AMBRIDGE
<i>Vice-President</i>	- - - - -	W. H. SMITH
<i>Secretary-Treasurer</i>	- - - - -	W. S. BARBER

The need for extensive expenditures on the mills of Provincial Paper, Limited is urgent and a comprehensive programme of rehabilitation has been drawn up and is being put into effect. Funds for this purpose will be taken out of current earnings.

The results of the operations of Provincial Paper, Limited for 1946 are shown in the statements attached as part of this report.

P

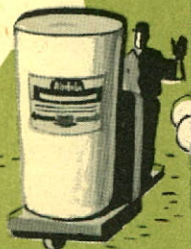
RODUCTION IN ABITIBI MILLS



Newsprint production for the year 1946 was the highest in the history of the Company. The following tables show the figures for production of the various products of the Company for the past 10 years.

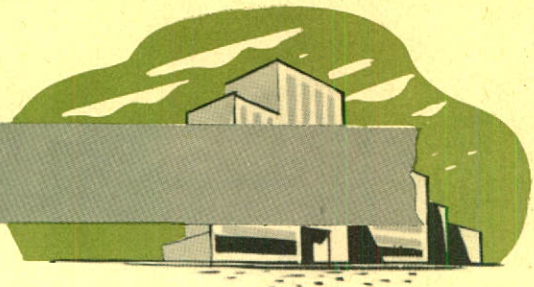
All of the 19 paper machines are now in operation and are running at their highest practicable speed. Every effort is being made to further increase production and it is expected that if the necessary equipment becomes available newsprint production in 1947 will be substantially higher than it was in 1946.

In July, 1946, an idle machine for drying unbleached sulphite was brought into production at Sault Ste. Marie and produced a total of 13,416 tons during the remainder of the year.



	NEWSPRINT PAPER	BLEACHED SULPHITE PULP	UNBLEACHED SULPHITE PULP
1937	485,217 TONS	57,734 TONS	12,494 TONS
1938	293,444	32,036	2,134
1939	324,543	40,685	3,686
1940	430,299	51,927	21,565
1941	474,127	60,582	29,402
1942	422,882	63,025	44,183
1943	470,750	63,447	42,393
1944	438,705	62,314	
1945	453,657	63,128	6,978
1946	610,683	57,090	28,394

S ALES



A new wholly owned subsidiary of the Company, Abitibi Sales Company Limited has been incorporated for the purpose of handling the sales of the Company. The offices of this subsidiary will be in Toronto and in due course the present sales subsidiary, The G. H. Mead Company with headquarters in Dayton, Ohio, will be wound up. This procedure will place the direction of the Company's sales under the general management in Toronto.

I NDUSTRIAL RELATIONS



The Company has a long history of satisfactory relations with the various labour unions involved in its operations.

In order to foster and promote the growth of sound employee relations a new plan of retirement income for all the Company's regular employees became effective on December 31st, 1946. This plan compares favourably with similar plans which are in effect for the benefit of the employees of other large pulp and paper manufacturing concerns in Canada.

Constant efforts are being made to implement a sound and broad personnel policy so that the employees of the Company may have available to them opportunities for progress, equitable remuneration and security in retirement.

The Directors wish to express their appreciation to all employees—whether in woodlands, on lakes and rivers, in pulp mills, paper mills, townsites, railroads, electric power developments, the many offices, or other branches of the Company's operations—of their loyalty and co-operation which have made it possible to achieve the results mentioned in this report.

On behalf of the Board,

D. W. Ambbridge
President.

A

AUDITORS' REPORT . .

1946

PRICE, WATERHOUSE & CO.

ROYAL BANK BUILDING
TORONTO
February 10, 1947.

To the Shareholders of
ABITIBI POWER & PAPER COMPANY, LIMITED:

We have examined the consolidated balance sheet of Abitibi Power & Paper Company, Limited and subsidiary companies as at December 31, 1946 (in which the shares of Provincial Paper, Limited and The G. H. Mead Company are treated as investments) and report that we have obtained all the information and explanations which we required. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

By resolution of the Directors the consolidated deficit resulting from operations to the end of the receivership period on April 30, 1946, amounting to \$12,227,635, was charged to surplus arising from the restatement of the book values of properties, plant and equipment as at April 30, 1946, at valuations made by Messrs. Coverdale & Colpitts, Consulting Engineers, New York, and the balance of \$8,197,419 of such surplus was applied in writing down the consolidated gross book values of timber concessions, agreements and licenses, and waterpower rights.

Under Section 114 of The Companies Act, 1934, we report that the earnings of The G. H. Mead Company for the four months ended April 30, 1946 are included in the attached consolidated statement of profit and loss, but the earnings of that company for the eight months ended December 31, 1946 have not been included; profits of Provincial Paper, Limited for the year ended December 31, 1946 are not included in the consolidated profit and loss account for the four months ended April 30, 1946 nor for the eight months ended December 31, 1946.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and the related consolidated statements of deficit and profit and loss, when read in conjunction with the notes attached thereto, are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1946 and the results from operations for the year ended on that date.

PRICE, WATERHOUSE & CO.
Auditors.



BITIBI POWER & PAPER COMPANY,



Consolidated Balance

(Treating the Shares of Provincial Paper, Limited)

Assets

CURRENT ASSETS:

Cash on hand and on deposit.....	\$	990,079.49	
Dominion of Canada bonds, at cost plus accrued interest. (Quoted market value \$10,639,708.34).....		10,548,958.34	
Other bonds.....		194,603.00	
Accounts receivable, less reserves.....		3,142,628.05	
Receivables from subsidiary companies not consolidated (including \$3,062,476.57 from The G. H. Mead Company for newsprint shipments).....		3,122,617.09	
Inventories of paper, pulp, wood, materials and supplies on the basis of cost, as determined and certified by responsible officials and expenditures on logging operations.....	\$18,482,320.34		
Less—Reserves applied in reduction thereof.....	953,336.39		
		17,528,983.95	\$ 35,527,869.92

PREPAID AND DEFERRED CHARGES:

Prepaid insurance, taxes, etc.....	543,648.33
------------------------------------	------------

OTHER ASSETS:

Deposits with trustee for bondholders.....	\$	37,266.69	
Deposits with Provincial government.....		173,725.00	
Miscellaneous investments, less reserves.....		637.00	
Refundable portion of excess profits taxes.....		203,547.91	
			415,176.60

SHARES OF SUBSIDIARY COMPANIES NOT CONSOLIDATED:

Provincial Paper, Limited.....	\$	5,500,000.00	
The G. H. Mead Company.....		210,022.84	
			5,710,022.84

CAPITAL ASSETS:

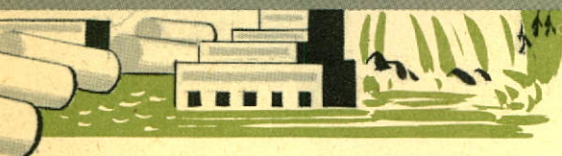
Properties, plant and equipment at gross physical values as at April 30, 1946, as reported by Messrs. Coverdale & Colpitts, Consulting Engineers, New York, plus subsequent additions at cost (See Note I).....	\$109,988,204.50		
Less—Accrued depreciation as of April 30, 1946, as reported by Messrs. Coverdale & Colpitts, plus subsequent provisions.....	44,022,643.33		
		65,965,561.17	
Freehold timber areas, at cost.....	\$	418,973.99	
Timber concessions, agreements and licenses, and waterpower rights (See Note II).....		18,377,232.55	
	\$	18,796,206.54	
Less—Reserves for amortization and depletion.....	2,089,846.32		
		16,706,360.22	

NOTE: The Company's net equity in subsidiary companies not consolidated as shown by the balance sheets of such subsidiaries as at December 31, 1946, exceeds the values shown on this Balance Sheet by \$27,840.58.

\$124,868,639.08



LIMITED AND SUBSIDIARY COMPANIES



Sheet December 31, 1946

and of The G. H. Mead Company as Investments)

Liabilities

CURRENT LIABILITIES:

Wages accrued and payable.....	\$	431,454.05	
Accounts payable and sundry accruals.....		4,503,096.84	
Interest accrued on First Mortgage 5% Bonds, due 1965.....		221,223.75	
Reserve for income and excess profits taxes.....		5,875,000.00	
Other taxes payable and accrued.....		249,476.27	
			\$ 11,280,250.91

FIRST MORTGAGE 5% BONDS DUE 1965 (See Note III):

Authorized and outstanding.....		53,093,700.00
---------------------------------	--	---------------

(The \$53,093,700 of First Mortgage 5% Bonds due 1965 are proposed to be redeemed on or about April 1, 1947; the funds required for the redemption are to be provided chiefly from the sale of \$45,000,000 principal amount of 3½% First Mortgage Serial and Twenty-year Bonds to be dated April 1, 1947, and the balance from the companies' current assets.)

RESERVE AGAINST POSSIBLE DECLINE IN INVENTORY VALUES.....

1,500,000.00

CAPITAL STOCK (See Note IV):

Authorized and outstanding—

5% Preferred Shares—

14 shares of \$100.00 each..... \$ 1,400.00

Prior Preferred Shares—

50,000 shares of \$20.00 each..... 1,000,000.00

Preferred Shares—

1,395,272 shares of \$20.00 each..... 27,905,440.00

Common Shares—

1,241,694 shares without nominal or par value..... 25,941,295.43

54,848,135.43

EARNED SURPLUS, since May 1, 1946:

Profits for the eight months ended December 31, 1946, as per statement attached (Exhibit 1).....

4,146,552.74

NOTE: The deficit of \$12,227,635 as at the termination of receivership on April 30, 1946, was charged as of that date to surplus arising from restatement of book values of properties, plant and equipment.

APPROVED ON BEHALF OF THE BOARD:

Swanbridge
Director.

W. H. Smith
Director.

\$124,868,639.08

Abitibi Power & Paper Company, Limited
and Subsidiary Companies

NOTES TO CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1946

- I As stated on the consolidated balance sheet the companies' properties, plant and equipment (exclusive of freehold timber areas, timber concessions, agreements and licenses, and waterpower rights) are shown at valuations as at April 30, 1946, made by Messrs. Coverdale & Colpitts, Consulting Engineers, New York, plus subsequent additions at cost. These valuations compare with the book values as at April 30, 1946, before adjustment as follows:

Particulars	Book values before adjustment	Valuations made by Coverdale & Colpitts
Gross values	\$ 99,324,967	\$108,376,000
Accrued depreciation	53,241,021	41,867,000
NET VALUES	<u>\$ 46,083,946</u>	<u>\$ 66,509,000</u>

The amount of \$20,425,054 representing the surplus arising from the restatement of these assets at the valuations made by Messrs. Coverdale & Colpitts was applied in absorbing the deficit of \$12,227,635 in profit and loss as at the termination of the receivership of the company on April 30, 1946, leaving a balance of this surplus of \$8,197,419 which was applied in reduction of the consolidated gross book values of timber concessions, agreements and licenses, and waterpower rights.

The adoption for accounting purposes of the valuations made by Messrs. Coverdale & Colpitts as above, will not affect the amount of the provisions for accruing depreciation of capital assets allowable for income and excess profits tax purposes; the annual provisions allowable in respect of the assets existing at April 30, 1946, will for the next six years amount to approximately \$2,600,000 and will thereafter be reduced.

- II The amount of \$18,377,232 shown on the consolidated balance sheet for the gross book values of timber concessions, agreements and licenses, and waterpower rights is comprised of the following:

On the basis of valuations placed thereon in the books of Abitibi Power & Paper Company, Limited, Manitoba Paper Company, Limited and St. Anne Power Company or their predecessor companies in 1927 or prior (less amounts written off)	\$23,996,446
At cost of acquisition in 1929 by purchase of the issued capital stock of Baie St. Paul Lumber Company, Limited	553,900
Excess of book value of investment in capital stock of Thunder Bay Paper Co., Limited over net tangible assets of that Company, considered as representing cost of that company's timber concessions on a consolidated basis	2,024,305
	\$26,574,651

<i>Deduct</i> —Amount transferred from surplus arising from restatement as at April 30, 1946, of properties, plant and equipment at valuations made by Messrs. Coverdale & Colpitts, Consulting Engineers, New York	8,197,419
	\$18,377,232

- III The First Mortgage 5% Bonds due 1965 are payable as to principal and interest in lawful money of the Dominion of Canada or, at the holder's option, in currency forming legal tender in the United States of America, or, at the holder's option, in sterling money of Great Britain at the fixed rate of exchange of \$4.86 $\frac{2}{3}$ to the pound sterling.

The First Mortgage 5% Bonds due 1965 contain a statement providing as follows:

"Of the principal of this Bond the amount of \$ represents
unpaid interest accrued on the first day of June, 1944, on the First Mort-

gage Gold Bond(s) Series A, 5%, due 1953, of the Company, in substitution for and in modification of which Bond(s) this Bond has been issued. The Taxation Division of the Department of National Revenue (Canada) has ruled that on payment at maturity or on prior redemption of this Bond such amount will be treated for purposes of Canadian Income Tax as income in the hands of the then holder.

Note: Amounts are as follows: \$1,000 Bond — \$522.727; \$500 Bond — \$261.36; \$100 Bond — \$52.27; \$50 Bond — \$26.136.

It has been currently indicated in the press that the Minister of Finance of the Dominion of Canada has announced that legislation is proposed to be passed which will change the ruling previously given upon which the above statement was based.

- IV.** The 5% PREFERRED SHARES are redeemable at, and in a liquidation, dissolution or winding up the holders of such shares are entitled to receive, the amount paid up thereon together with all unpaid cumulative dividends. Dividends upon these shares accrue from January 1, 1946, at the rate of 5% per annum upon the capital paid up thereon respectively from time to time; at December 31, 1946, such accrued and unpaid dividends amounted to \$47.

The PRIOR PREFERRED SHARES are redeemable at, and in a liquidation, dissolution or winding up the holders of such shares are entitled to receive, \$37.50 per share together with all unpaid cumulative dividends. Dividends upon these shares accrue from January 1, 1945, at the rate of \$2.50 per share per annum; at December 31, 1946, such accrued and unpaid dividends amounted to \$250,000.

The PREFERRED SHARES are redeemable at, and in a liquidation, dissolution or winding up the holders of such shares are entitled to receive, \$25.00 per share together with all unpaid cumulative dividends; dividends are to accrue from and after the next quarterly dividend date after the date on which the principal amount of the bonds shall have been reduced to or below \$35,000,000 or January 1, 1947, whichever is the earlier, at the rate of \$1.50 per share per annum.

The Amended Indenture securing the outstanding First Mortgage 5% Bonds due 1965, which as stated in the balance sheet it is proposed to redeem on or about April 1, 1947, provides that no dividends are to be declared or paid so long as the principal amount of such bonds outstanding thereunder shall exceed \$35,000,000; and when the principal of the bonds shall have been reduced to \$35,000,000, and so long as any bonds are outstanding thereunder, no dividends shall be declared or paid unless the consolidated net current assets as defined by the Amended Indenture exceeds \$17,500,000 by an amount sufficient at least to provide for such dividends, after setting aside the amounts required to be set aside under Clause 48 of the Amended Indenture. These restrictions will become inoperative on the redemption of the First Mortgage 5% Bonds due 1965, and the Deed of Trust and Mortgage to be executed by the Company in connection with the \$45,000,000 principal amount of 3½% First Mortgage Serial and Twenty-year Bonds to be dated April 1, 1947, will contain certain restrictions on the payment of dividends and redemption of capital stock.

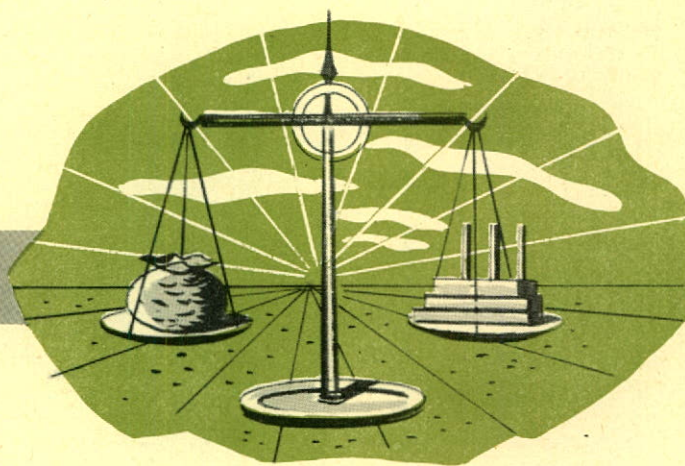


EXHIBIT 1—OVER

**Abitibi Power & Paper Company, Limited
and Subsidiary Companies**

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the Period from January 1, 1946 to December 31, 1946

PARTICULARS	AMOUNT	
	For the period from January 1, 1946 to April 30, 1946 (in Receivership)	For the period from May 1, 1946 to December 31, 1946 (after Reorganization)
Profits from operations, including exchange premium, before provision for depreciation, amortization and depletion	\$5,365,238.96	\$15,203,400.40
Interest and discount earned (net)	89,322.89	152,979.95
	<u>\$5,454,561.85</u>	<u>\$15,356,380.35</u>
<i>Deduct—</i>		
Provision for depreciation	\$ 920,000.00	\$ 2,189,333.33
Provision for amortization and depletion	103,100.00	221,900.00
Payment towards employees' pension fund		750,000.00
	<u>\$1,023,100.00</u>	<u>\$ 3,161,233.33</u>
	<u>\$4,431,461.85</u>	<u>\$12,195,147.02</u>
<i>Deduct—Interest on First Mortgage 5% Bonds due 1965 includ- ing exchange premium</i>	<i>977,808.98</i>	<i>1,773,594.28</i>
 PROFITS before provision for income and excess profits taxes	 \$3,453,652.87	 \$10,421,552.74
<i>Deduct—Provision for income and excess profits taxes</i>	<i>2,000,000.00</i>	<i>6,275,000.00</i>
 PROFITS for the period from January 1, 1946, to termina- tion of receivership on April 30, 1946, carried to deficit as at April 30, 1946 (Exhibit 2)	 \$1,453,652.87	
PROFITS from reorganization on May 1, 1946, to December 31, 1946, carried to balance sheet		<u>\$ 4,146,552.74</u>

NOTES:

- I For the period from January 1, 1946 to April 30, 1946 the results as shown are exclusive of profits reported by Provincial Paper, Limited; for the period from May 1, 1946 to December 31, 1946 the results are exclusive of profits reported by Provincial Paper, Limited and The G. H. Mead Company.
- II Profits for the period from May 1, 1946 to December 31, 1946 are after deducting fees of directors not executive officers and not holding salaried positions amounting to \$16,400 and counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounting to \$153,038.

Abitibi Power & Paper Company, Limited
and Subsidiary Companies

CONSOLIDATED STATEMENT OF DEFICIT AS AT APRIL 30, 1946

(Exclusive of PROVINCIAL PAPER, Limited)

PARTICULARS	AMOUNT
Deficit as shown by balance sheet of Receiver and Manager at December 31, 1945	\$18,292,956.99
<i>Deduct—</i>	
Adjustments of provisions in respect of interest on First Mortgage Gold Bonds Series A, 5%, due 1953—required to give effect to Plan of Reorganization	\$13,142,289.88
Balance of contingency reserve provided during receiver- ship	550,000.00 13,692,289.88
	\$ 4,600,667.11
<i>Add—</i>	
Interest for the period from June 1, 1944 to December 31, 1945 on First Mortgage 5% Bonds due 1965	\$ 4,226,479.74
Adjustment of reserve for income and excess profits taxes to provide for amounts payable in respect of the six years ended December 31, 1945, as shown by assessments received in 1946	2,332,946.81
Sundry adjustments applicable to period of receivership (net)	69,884.65
Provision for compensation, costs and expenses applicable to receivership and reorganization, less amounts pre- viously provided from the operations of the Receiver and Manager	2,451,309.56 9,080,620.76
	\$13,681,287.87
<i>Deduct—</i>	
Profits for the period from January 1, 1946 to termination of receivership on April 30, 1946, as per Exhibit 1	1,453,652.87
DEFICIT as at termination of receivership on April 30, 1946 carried to Exhibit 3	\$12,227,635.00

**Abitibi Power & Paper Company, Limited
and Subsidiary Companies**

(Exclusive of Provincial Paper, Limited and The G. H. Mead Company)

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**STATEMENT OF SURPLUS
ARISING FROM RESTATEMENT OF BOOK
VALUES OF PROPERTIES, PLANT AND EQUIPMENT
AS AT APRIL 30, 1946**

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PARTICULARS	AMOUNT
Surplus arising from restatement of properties, plant and equipment at valuations made by Messrs. Coverdale & Colpitts, Consulting Engineers, New York, as at April 30, 1946.....	\$20,425,054.01
<i>Deduct</i> —Deficit as at the termination of receivership, April 30, 1946 (as per Exhibit 2), applied thereagainst by resolution of the Board of Directors....	<u>12,227,635.00</u>
BALANCE, applied as of April 30, 1946, in reduction of consolidated gross book values of timber concessions, agreements and licenses, and water-power rights.....	<u><u>\$ 8,197,419.01</u></u>





Provincial Paper, Limited

STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

For the Year Ending December 31, 1946

PARTICULARS	AMOUNT
Profits from operations before provision for depreciation.....	\$1,344,614.61
Interest earned	19,427.52
	<u>\$1,364,042.13</u>
<i>Deduct—</i>	
Provision for depreciation.....	\$ 250,000.00
Payment towards employees' pension fund.....	200,000.00
	<u>450,000.00</u>
	\$914,042.13
<i>Deduct—Interest on 5½% First Mortgage Bonds (Redeemed November 1, 1946), including exchange premium</i>	133,871.84
	<u>PROFITS before provision for income and excess profits taxes</u>
	\$ 780,170.29
<i>Deduct—Provision for income and excess profits taxes</i>	425,000.00
	<u>NET PROFIT FOR THE YEAR</u>
	\$ 355,170.29
<i>Add—</i>	
Earned surplus as at January 1, 1946.....	\$1,451,872.06
<i>Less—</i>	
Premium paid on redemption of 35,000 shares	
7% cumulative preferred stock	\$245,000.00
Exchange premium paid on redemption of	
\$2,740,000 principal amount of 5½% First	
Mortgage Sinking Fund Bonds.....	13,700.00
	258,700.00
	<u>1,193,172.06</u>
	\$1,548,342.35
<i>Deduct—</i>	
Dividends on 7% cumulative preferred stock (redeemed in 1946).....	\$ 183,750.00
Dividends on 4% cumulative preferred stock.....	11,666.67
	<u>195,416.67</u>
TOTAL EARNED SURPLUS AS AT DECEMBER 31, 1946 (including \$111,576.46 estimated refundable portion of excess profits taxes).....	<u>\$1,352,925.68</u>

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Balance Sheet . .

Assets

CURRENT ASSETS:

Cash on hand and on deposit.....	\$ 208,313.20	
Accounts receivable, less reserves.....	1,036,211.81	
Inventories of paper, pulp, wood, materials and supplies valued at or below present market prices, not above cost, as determined and certified by responsible officials of the company, and expenditures on logging operations after giving effect to an accumulated reserve against future depreciation in inventory values amounting to \$351,247.23.....	1,813,092.57	\$3,057,617.58

PREPAID AND DEFERRED CHARGES.....	51,252.78
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OTHER ASSETS:

Amount deposited under agreement in respect of royalties.....	\$ 27,625.00	
Miscellaneous investments, less reserves.....	5,000.00	
Refundable portion of excess profits taxes.....	111,576.46	144,201.46

SHARES OF SUBSIDIARY COMPANIES NOT CONSOLIDATED:

Simcoe Realty Company Limited.....	\$ 165,644.08	
Sucker Creek Timber Slide Company Limited.....	10,631.23	176,275.31

CAPITAL ASSETS:

Land, buildings, equipment, etc.....	\$10,247,586.69	
Less—Accrued depreciation.....	5,749,558.17	4,498,028.52

NOTE: The company's net equity in subsidiary companies not consolidated as shown by the balance sheets of such subsidiaries as at December 31, 1946, exceeds the values shown on this balance sheet by \$30,464.73.

\$7,927,375.65

Auditors Report to Shareholders

We have examined the books and accounts of Provincial Paper, Limited for the year ending December 31, 1946, and have obtained all the information and explanations which we have required. We report that, in our opinion, the above balance sheet as at December 31, 1946, exhibits a true and correct view of the state of the

APER, LIMITED

. . December 31, 1946

Liabilities

CURRENT LIABILITIES:

Wages accrued and payable.....	\$ 78,754.24
Accounts payable and sundry accruals.....	427,344.85
Owing to affiliated companies.....	78,081.72
Reserve for income and excess profits taxes.....	194,982.24
Other taxes payable and accrued.....	42,334.14
Dividend on preferred stock—accrued.....	1,666.67
	\$ 823,163.86

GENERAL RESERVE:

(Including \$30,000.00 premium on issue of 4% Preference Shares).....	651,286.11
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CAPITAL STOCK:

Authorized and issued during year ended December 31, 1946—

20,000 shares 4% cumulative preference shares of \$50.00 each (redeemable at the option of the company at \$53.50 per share)..... \$ 1,000,000.00

Common Stock without nominal or par value—

Authorized and issued as at December 31, 1945... 100,000 shares \$ 100,000.00

Authorized and issued during the year ended

December 31, 1946..... 250,000 shares 4,000,000.00

Outstanding at December 31, 1946..... 350,000 shares 4,100,000.00

5,100,000.00

EARNED SURPLUS, as per Exhibit attached (including \$111,576.46 estimated refundable portion of excess profits tax as per contra.....

1,352,925.68

\$7,927,375.65

company's affairs according to the best of our information and the explanations given to us and as shown by the books of the company. All our requirements as auditors have been complied with.

TORONTO, February 10, 1947.

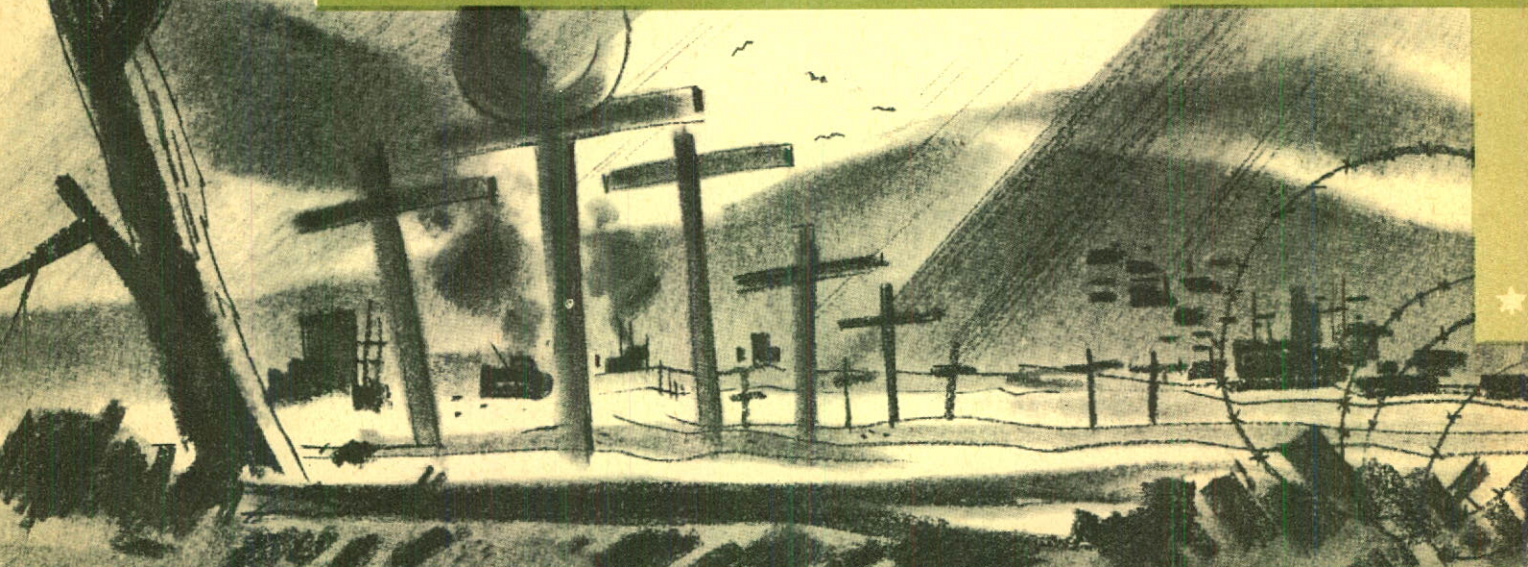
PRICE, WATERHOUSE & CO.

Chartered Accountants.



In Memoriam

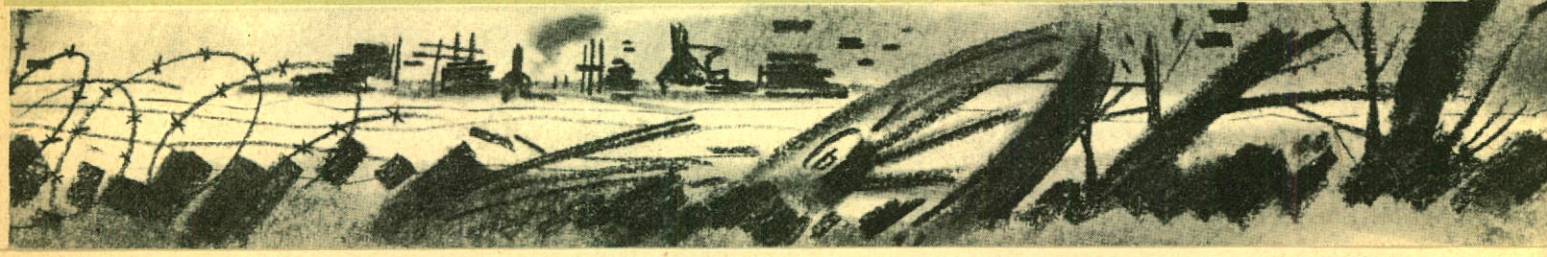
G. H. ANDERSON	E. W. GOLD	H. NEWLOVE
R. H. BETTS	H. HAIDER	R. NICHOLAS
J. BOYD	R. R. HALFORD	R. D. POE
B. E. COLUMBUS	J. E. HORVATH	J. C. ROACH
J. F. COOPER	V. HUGLI	W. T. ROBINSON
G. S. CYBOLSKY	M. KALICK	A. J. RONHOLM
R. J. D'ARCY	W. J. KASUBECK	F. SABOURIN
E. A. DAWSON	W. F. KNIGHT	J. SEMENIUK
G. DEAN	A. J. LABARRE	S. H. SMITH
F. DEWAR	F. H. LALOR	L. A. TOURAND
G. J. DOYLE	T. E. LAVALLEE	F. VAILLANCOURT
B. G. FOY	O. J. LOCKE	W. N. WOLF
D. GOLD	D. S. MCLEAN	W. YURINCHUK
	J. G. NAULT	





T O OUR RETURNED MEN WE SAY . . .

We welcome those who have returned from the armed services. Their splendid record has won our gratitude and our confidence in their future. We join with them in paying tribute to their comrades whose names appear on the Honour Roll, who by their gallant sacrifice have protected for us that priceless heritage—freedom—with the right to go about our daily tasks at peace.





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